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ECONOMIC LOGIC, INTERNATIONAL SECURITY AND EQUILIBRIUM AMONG NATIONS

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'Since the first cracks in the Iron Curtain during the momentous autumn of 1989, to the accomplished reunification of Germany, to the present ruptures in the bonds of the Soviet Union itself, it has become more and more apparent that a Continent wide upheaval in the very configuration of nation states is in progress. The seismic ripple has echoed even as far a China where muted decentralization is under way. As an economist trained in analysis of the effects of incentives on behavior I ask is some systematic process is in operation here? If so what is it? Where will it end?

These systemic changes have been peaceful, excepting contained violence in the crescent of diverse nationalities bordering the USSR almost totally so. Can we expect further changes will continue to be so peaceful? Or is there likelihood of return to determination by force?

By contrast, just as boundary issues have been opened for peaceful, voluntary re-determination in Europe, Saadam Hussein launched his land and oil grab by force in the Mid-East. Is the disparity between these two approaches merely a coincidence, or is there some deeper connection?

The Individual **Country's** Pursuit of Self-Interest
And **Equilibrium** in the International **System**

Where might one turn for insight into these questions? My prejudice is that the discipline of economics may shed light on-them in

new and rather unexpected ways. Economics, not merely in the sense of exchange rates, unemployment, and GNP, but in the larger sense as a system of logic for understanding self-interest driven behaviour. Just as these above economic indicators and many 'others'-derive from an underlying logic, so does the configuration of nation states in the international system. To understand that system and its present evolution one must examine the logic of its existence.

Economic purists have said economics is nothing more than persistent logical examination of two phenomena:

- (1) the self-interest maximizing behaviour of individual entities
- (2) the equilibrium outcomes when many such "individuals" interact.

Applied to international security and the configuration of nation-states in the international system, this principle states

- (1) that individual groups or states use their limited resources to advance their interests to the maximum,
- (2) that the outcome of the resultant competition is a particular equilibrium of nations, their boundaries, populations, GNP's etc.

Thus how groups and individuals perceive their self interest, and the resources and techniques available to them to advance that self interest in the aggregate produces a particular equilibrium of nation states. Let us try to apply this idea to the ongoing world political upheaval!

How Nations Advance Their Self-Interest:

Military Conquest vs Production, Investment, and Trade

How does a nation advance its self-interest to the maximum?
Basically there are two methods for doing so.

Conquest of other groups coupled with defense of one's

own assets is one; this might be called the
"resource capture approach."

Domestic production of goods and services, coupled with foreign and domestic investments, plus international trade is the alternative; this might be called the
**production/trade approach."

The two approaches of course are not mutually exclusive. At any one time countries may pursue a combination of **the** two strategies, and different countries may find they can benefit from concentrating on one approach or another. Still, during any one period, how the different countries of the globe choose between these two alternatives will determine the equilibrium of nation state system itself -- an equilibrium defined as a stable situation in which no country both wants to and is able to capture any other country, and no country worth capturing is vulnerable to takeover. The hypothesis to be advanced here is that the dramatic political shifts witnessed in Europe over the recent past represent a chancre in equilibrium due to chancres in the relative effectiveness of these two approaches as perceived by all the great powers.

More specifically, I argue a mutual recognition has dawned on political **leaders** and populations that the resource capture approach is no longer efficacious, all the countries involved have **begun** to see a benefit from reorienting their competitive efforts more toward production, investment and trade, As these reciprocal strivings interact a new equilibrium of nation states will emerge, some of the features of which are now clearly discernible, although **others** are still yet unclear. In brief the old resource capture model is being replaced by a new produce-invest-trade paradigm; in the vanguard of this displacement have **been** the two countries which tried and failed so

ruinously at the resource capture approach and have so stunningly succeeded at the produce-invest-trade approach. These are of course Germany and Japan.

Nation State Equilibrium and The Cost Benefit
Calculus of Resource Capture vs Trade and Investment

To identify the factors which have lead to this shift, we need to grasp what configuration of elements produces any equilibrium. For instance what set of incentives supported the conquest paradigm is the first place? I suggest four.

- (a) The desired object of conquest -- a country, region etc -- must possess or produce something of value to the conqueror.
- (b) This surplus must be feasible to expropriate at not too excessive a cost once the conqueror has subdued his subject.
- (c) The gains from resource capture must outweigh those losses in production, investment, and trade which a country gives up when it chooses military might and conquest over peaceful production and trade.
- (d) The costs of offensive vs defensive warfare must place a limit on the reach of "imperial states". The technology of warfare must be such that as states expand their domains, eventually the cost of further conquest will exceed the value of the resources captured, while the value of those resources will at the same time exceed the costs of protecting them.

This list of factors helps to distinguish how changes in various elements in the international system will alternately discourage or encourage countries to expand or shrink their boundaries and other domains of power. Any of the following developments for example will tend to reduce the equilibrium sizes of states:

lesser value of the resources to be captured;
greater difficulty in establishing satellite
relationships with client states and extracting
surpluses;
greater gains from shifting into production
-trade-investment;;
higher costs of offensive military action,
lower costs of defensive action.

The Decline of Resource Capture and Rise of
Production/Trade as Preferred National **Strategies**

On all these counts it is demonstrable that trends in Europe, and in fact throughout the world of developed countries, go against the sustainability of resource capture as an effective strategy for self-enrichment.

First as national economies have developed over the past half century they have become increasingly less dependent on specific physical resources, and more on technology and human skills and knowledge. [Xuwait and oil is a modern anomaly.] The experience of World War II is instructive on this score; the national economies and scientific establishments of all combatants were highly adept at finding substitutes for materials in short supply. Throughout the developed world, countries' major assets are their educated, skilled populations whose cooperation is essential to produce anything. Thus the value of brute material resources in developed countries has diminished greatly in comparison with the value of labor. Consider the success of such relatively resource poor but human skill and knowledge rich economies as Japan! With the cooperation of indigenous labor essential to production of any value, conquest and enslavement becomes costly and absurd. Much less can be extracted by a dominant power from

its satellites than in earlier days. The policy simply does not pay.

Political development also has contributed to the trend which yields less extractable surplus wealth now available to the would be occupier of any country than in earlier times. As feudal governance has waned and trends toward political democratization have spread, the proportion of national wealth skimmed off by the ruler as a pure surplus (a surplus easily pirated by a conqueror) has declined dramatically. (Again states such as Kuwait are the exception). "Surplus" incomes are now spread throughout the middle classes, and through pensions systems throughout whole societies, making a much less concentrated and lucrative target than in earlier times.

Finally the technology of warfare has indeed placed a limit on the benefits countries could secure by expanding their size and borders so as to increase their military might. Military capability benefits enormously from economies of scale. In fact such scale economies arguably are the major cause of the frozen bi-polarism to settle over the pre-Gorbachev world. However, the costs of conquest have increased enormously because the potential devastation of warfare has become so much greater than in the past. The examples of Viet Nam, Afghanistan, and most recently Kuwait-Iraq 1990-91 are sobering, and any contemplation of losses even under the most limited use of nuclear weapons is simply outrageous. Moreover, exploitation of scale economies to maximize the very large scale public good of military might is achieved only at the cost of squeezing each ally or satellite into one Procrustean cultural system. When individual groups and countries agree on the preeminence of a "common **threat**" each may tolerate some discomfort at being forged into a unitary system or alliance. But once

the benefits of military security seem less significant, perceptions of these "Procrustean costs" will rise. Regional differences in language, tradition, history, religion, and custom become more important than confronting the diminished foreign peril.

**Implications for A New
World Security Order**

On the above account, once the super powers, and indeed the other major powers of the world perceived that the motives others and particularly their adversaries had for conquest were slight, their own need for holding together large blocs in the name of territorial security diminished dramatically, the costs of such military resource allocations loomed far greater considering the gains that might be obtained from ordinary commercial pursuits, and the unhappiness from holding together very diverse groups of different language, religion, culture, and history grew apace.

This is a fairly straight forward economic model of European international political economy of recent years. Consider the inferences we might draw from it, concerning what to expect' for the future path of world security.

Its first and most important implication is an accelerating retreat from the strategic military factor in competition between the two super powers. The role of satellites, pawns, and client states, with no international power position or status themselves is bound therefore to diminish. The countries of Eastern Europe as well as others such as North Korea, Viet Nam, Cuba, the Philippines are examples. Those countries which served as buffers or fed the economies of scale in

military capability will now find they provide an unneeded input to security. The superpowers simply have much less at stake in such countries than before.

A second derivative implication is that separatist forces within in alliances will increase. The motives for sustaining the costs of the old alliances are dissolving -- those motives again being the threat and exploitation of scale economies in response to the threat.

Next with respect to major countries which might be regional or world powers in the future, two factors should increase their prominence in the world arena. First, the rigid protection of belonging to a superpower block is less reassuring than it was previously, and possibly no longer available in any case. And second the potential benefits from play as a great power are no longer denied to them. Conceivably, therefore, countries with large populations and resources - say over 50 million in population and over US\$ 500 billion in GNP -- may find the perceived benefits of increasing their security outlays and foreign activism irresistible. Moreover, the superpowers may not care very much about this within limits, and find themselves much less capable of exerting influence in any case.

This not to forecast a neo-colonialist or irredentist upsurge, only to point out that avenues for national expression previously denied big/rich countries are now becoming open. Specific developments depend on regional, and historical particulars to a degree which makes generalization impossible. Yet, the obvious center of gravity for such trends is in the Southern Hemisphere and lesser developed regions. Military, political, and economic upheavals in these regions, power grabs by regional military forces , and strategic interventions by rich

and powerful Northern Hemisphere states will no longer will be precluded or contained by their risky connection to the cold war and superpower embroilment. Some alternative factor should have to be postulated to "keep the lid" on such conflicts or else they would seem more likely to arise in the new environment. In other words, our economic model would predict a greater scope for regional, sub-super-power conflict, because the super powers have less at stake in such quarrels now, care less about them, and will do less to contain them.

New International Security Paradigms

The premise of my argument has been that the cost benefit calculus of conquest and domination has changed such that rich developed countries have very little to fear for their territorial integrity. If this proves out to be true, do we still face a "security" problem properly speaking? The answer to this depends on our meaning of security. If "security" means "military confrontation between" rich developed states of the northern hemisphere the answer may be arguably no. This is not to say that military/security conflict among northern hemisphere countries is extinct. Rather, I mean the arena for such conflicts will not be the territorial boundaries of the states concerned. Indeed the end of the cold war quite probably means that the center of future military conflicts shifts to developing, less stable, regions in Africa, the Mid-East, South Asia, South America. The interdependence between security and development, therefore, and the function of developed countries military power in that mix becomes a crucial understudied geo-political issue. But it is hard to see such disharmony leading to direct military conflicts among the great powers.

Military conflict however is by no means the only type hazard in the world. If **"security"** refers to danger or risk to a country's welfare, then the demise of territorial insecurity among the developed powers in no way constitutes the end of 'national' security as a crucial concern. The gravity of economic peril which members of OECD (among others for example) may pose to each other cannot be dismissed. Beyond this the litany-of security hazards is by now **commonplace**: population explosion and implied issues of poverty, famine, world disease, and **tidal waves of migration and world disease; environmental and climatic** destruction due to industrialization and population growth; racial, ethnic, and religious conflict, persecution, and fanaticism; disparate distributions of power, wealth, and income, between north and south, as well as within marginal countries.

These issues in the final analysis **are** security issues, since we all sink or swim on the same planet. The challenges they present to the affluent nations, however, are **quite** different from those now receding into history with the Berlin Wall. The challenge of the old days was how to overcome the threat to individual national survival without unchaining the monster of nuclear weaponry. The challenge of the future is still to survival, but now common survival. The balance of the rules have changed from a game of conflict (with cooperative elements) to a **game** of coordination (with adversarial elements).

END
